

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS,
BASIC FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION
AND SCHEDULE OF FINDINGS
AND QUESTIONED COSTS

JUNE 30, 2011

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
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LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT

Officials

June 30, 2011

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Angie Kemp	Board President	2011
David Bieri	Board Member	2011
Randy Schlutz	Board Member	2011
Eric Schlutz	Board Member	2013
Riley Padgett	Board Member	2013

School Officials

Scott Grimes	Superintendent	2011
Karron Stineman	District Secretary/Treasurer	Indefinite
Duane Goedken	Attorney	Indefinite

KAY L. CHAPMAN, CPA PC

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Muscatine, Iowa 52761
563-264-1385

Independent Auditor's Report

To the Board of Education
Louisa-Muscatine Community School District

I have audited the accompanying financial statements of the governmental activities, business type activities, each major fund and the aggregate remaining fund information of Louisa-Muscatine Community School District, Letts, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of Louisa-Muscatine Community School District as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, I have also issued my report dated January 23, 2012 on my consideration of Louisa-Muscatine Community School District's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.

Management's Discussion and Analysis, Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 4 through 14 and 51 through 53 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Louisa - Muscatine Community School District's basic financial statements. I previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the seven years ended June 30, 2010 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in my audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. In my opinion, the information set forth in the supplementary information for each of the eight years in the period ended June 30, 2011, appearing in Schedule 7, is fairly stated, in all material respects in relation to the basic financial statements from which it has been derived.



Kay L. Chapman, CPA PC
January 23, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

Louisa-Muscatine Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2011. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2011 Financial Highlights

- General Fund revenues increased from \$7,612,469 in fiscal 2010 to \$8,016,307 in fiscal 2011 and General Fund expenditures decreased from \$8,134,093 in fiscal 2010 to \$7,971,674 in fiscal 2011. The District's General Fund balance increased from \$1,640,399 in fiscal 2010 to \$1,686,122 in fiscal 2011, a 3% increase.
- The increase in General Fund revenues can be attributed, in part, to new sources of revenue including the Microsoft settlement and the State-Wide Voluntary Preschool Grant.
- General fund expenditures decreased slightly due to implemented budget saving measures.
- The District's enrollment again declined for the fourth consecutive year, from 805.4 in FY10 to 784.6 in FY11, a loss of 20.80 students.
- On June 1, 2011, the District paid the final payment on the General Obligation Bonds for the elementary building.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Louisa-Muscatine Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Louisa-Muscatine Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Louisa-Muscatine Community School District acts solely as an agent or custodian for the benefit of those outside of the District.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year, as well as presenting the Schedule of Funding Progress for the Retiree Health Plan.

Other Supplementary Information provides detailed information about the nonmajor governmental funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the District.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

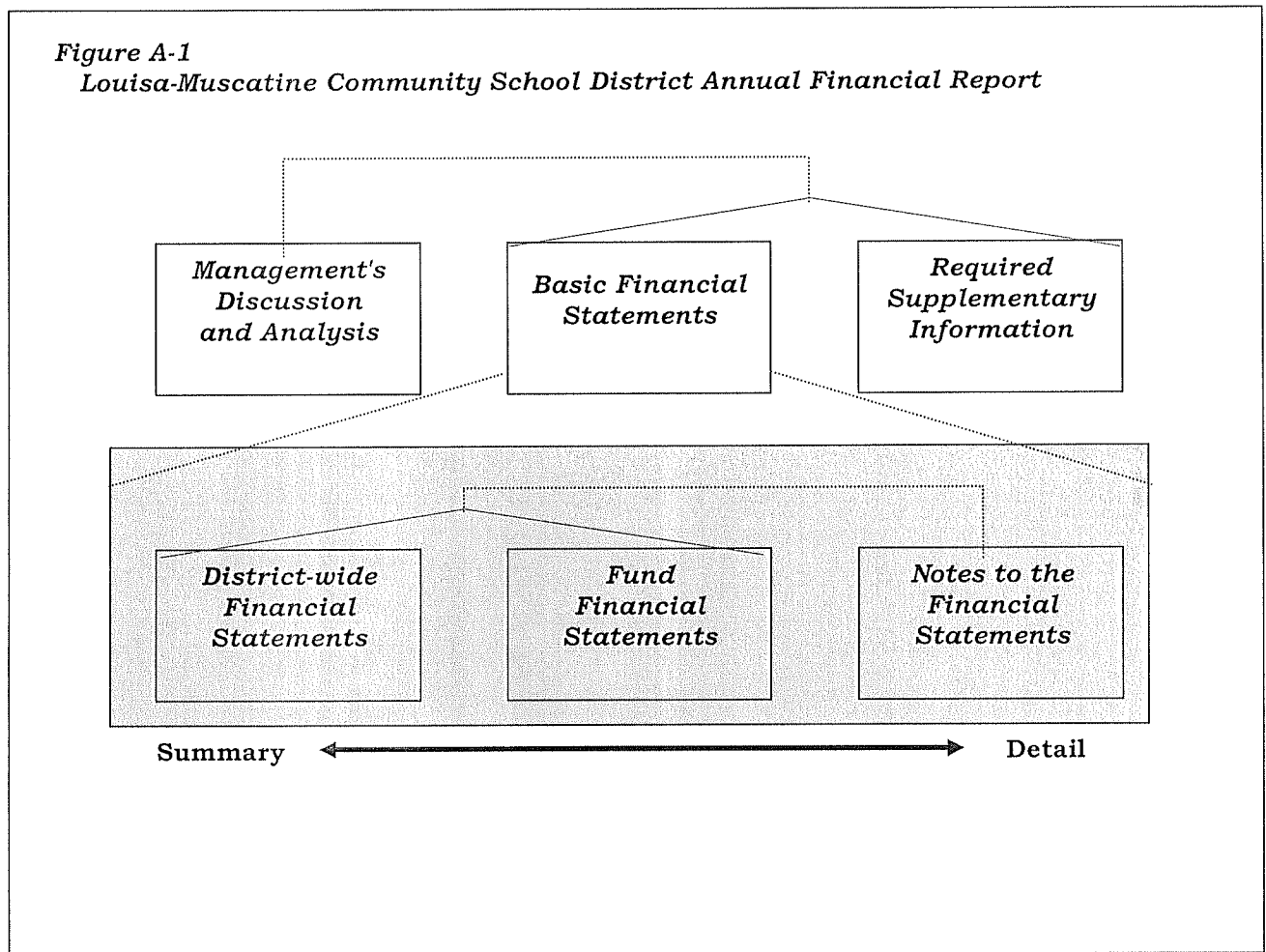


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2

Major Features of the Government-wide and Fund Financial Statements

	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activities the District operates similar to private businesses: food services and preschool/daycare programs	Instances in which the District administers resources on behalf of someone else, such as scholarship programs
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in fund net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition and daycare/preschool programs are included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds, or to show that it is properly using certain revenues, such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Funds.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business type activities, but provide more detail and additional information, such as cash flows. The District currently has two enterprise funds, the School Nutrition Fund and Daycare/Preschool Fund.

The required financial statements for proprietary funds include a statement of net assets, a statement of revenues, expenses and changes in fund net assets and a statement of cash flows.

- 3) *Fiduciary fund*: The District is the trustee, or fiduciary, for assets that belong to others. This fund consists of a private-purpose trust fund.

Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.

The District is responsible for ensuring the assets reported in the fiduciary fund are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for the fiduciary fund include a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2011 compared to June 30, 2010.

Figure A-3

Condensed Statement of Net Assets							
	Governmental		Business type		Total		Total
	Activities		Activities		District		Change
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2010-2011</u>
Current and other assets	\$ 8,605,740	\$ 9,033,710	\$ 198,947	\$ 189,550	\$ 8,804,687	\$ 9,223,260	-4.54%
Capital assets	<u>11,965,594</u>	<u>11,477,714</u>	<u>266,149</u>	<u>14,335</u>	<u>12,231,743</u>	<u>11,492,049</u>	6.44%
Total assets	<u>20,571,334</u>	<u>20,511,424</u>	<u>465,096</u>	<u>203,885</u>	<u>21,036,430</u>	<u>20,715,309</u>	1.55%
Long-term liabilities	5,411,477	5,895,676	-	-	5,411,477	5,895,676	-8.21%
Other liabilities	<u>4,264,504</u>	<u>4,368,423</u>	<u>38,074</u>	<u>30,099</u>	<u>4,302,578</u>	<u>4,398,522</u>	-2.18%
Total liabilities	<u>9,675,981</u>	<u>10,264,099</u>	<u>38,074</u>	<u>30,099</u>	<u>9,714,055</u>	<u>10,294,198</u>	-5.64%
Net assets							
Invested in capital assets,							
net of related debt	6,665,594	6,303,233	266,149	14,335	6,931,743	6,317,568	9.72%
Restricted	2,292,826	2,187,573	-	-	2,292,826	2,187,573	4.81%
Unrestricted	<u>1,936,933</u>	<u>1,756,519</u>	<u>160,873</u>	<u>159,451</u>	<u>2,097,806</u>	<u>1,915,970</u>	9.49%
Total net assets	<u>\$ 10,895,353</u>	<u>\$ 10,247,325</u>	<u>\$ 427,022</u>	<u>\$ 173,786</u>	<u>\$ 11,322,375</u>	<u>\$ 10,421,111</u>	8.65%

The District's combined net assets increased by approximately 9%, or \$901,264, over the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased \$105,253 or approximately 5% from the prior year. This increase can be attributed, in part, to increased fund balances in the Management and PPEL funds.

Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements - increased \$181,836, or approximately 9%. The increase in unrestricted net assets is, in part, a result of an increase in deferred revenues.

Figure A-4 shows the changes in net assets for the year ended June 30, 2011 compared to the year ended June 30, 2010.

Figure A-4

	Changes in Net Assets						
	Governmental Activities		Business Type Activities		Total District		Total Change
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2010-2011</u>
Revenues							
Program revenues							
Charges for service	\$ 939,129	\$ 981,726	\$ 240,914	\$ 317,974	\$ 1,180,043	\$ 1,299,700	-9.21%
Operating grants and contributions	1,576,590	1,662,907	217,244	213,118	1,793,834	1,876,025	-4.38%
General revenues							
Property tax	3,527,602	3,485,366	-	-	3,527,602	3,485,366	1.21%
Statewide sales, services and use tax	538,009	490,847	-	-	538,009	490,847	9.61%
Unrestricted state grants	3,010,306	2,457,388	-	-	3,010,306	2,457,388	22.50%
Contributions and donations	115,386	12,160	-	-	115,386	12,160	848.90%
Unrestricted investment earnings	29,877	14,765	615	570	30,492	15,335	98.84%
Other	<u>162,285</u>	<u>23,642</u>	<u>256,167</u>	<u>-</u>	<u>418,452</u>	<u>23,642</u>	1669.95%
Total revenues	<u>9,899,184</u>	<u>9,128,801</u>	<u>714,940</u>	<u>531,662</u>	<u>10,614,124</u>	<u>9,660,463</u>	9.87%
Program expenses							
Governmental activities							
Instruction	5,589,814	5,837,693	-	-	5,589,814	5,837,693	-4.25%
Support services	2,370,121	2,409,057	-	-	2,370,121	2,409,057	-1.62%
Non-instructional programs	8,112	7,403	461,704	479,897	469,816	487,300	-3.59%
Other expenses	<u>1,283,109</u>	<u>870,788</u>	<u>-</u>	<u>-</u>	<u>1,283,109</u>	<u>870,788</u>	47.35%
Total expenses	<u>9,251,156</u>	<u>9,124,941</u>	<u>461,704</u>	<u>479,897</u>	<u>9,712,860</u>	<u>9,604,838</u>	1.12%
Transfers	<u>-</u>	<u>50,000</u>	<u>-</u>	<u>(50,000)</u>	<u>-</u>	<u>-</u>	0.00%
Changes in net assets	648,028	53,860	253,236	1,765	901,264	55,625	1520.25%
Net assets, beginning of year	<u>10,247,325</u>	<u>10,193,465</u>	<u>173,786</u>	<u>172,021</u>	<u>10,421,111</u>	<u>10,365,486</u>	0.54%
Net assets, end of year	<u>\$ 10,895,353</u>	<u>\$ 10,247,325</u>	<u>\$ 427,022</u>	<u>\$ 173,786</u>	<u>\$ 11,322,375</u>	<u>\$ 10,421,111</u>	8.65%

In fiscal 2011, property tax and unrestricted state grants account for 66% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 64% of the revenue from business type activities.

The District's total revenues were \$10,614,124 of which \$9,899,184 was for governmental activities and \$714,940 was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 10% increase in revenues and a 1% increase in expenses. The increase in revenues can be attributed, in part, to capital assets contributed to the nutrition fund through the remodeling project and from increased donations. The slight increase in expenditures is a result of carefully monitoring expenditures in these uncertain economic times.

Governmental Activities

Revenues for governmental activities were \$9,899,184 and expenses were \$9,251,156 for the year ended June 30, 2011.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses for the year ended June 30, 2011 compared to the year ended June 30, 2010.

Figure A-5

	Total and Net Cost of Governmental Activities					
	Total Cost of Services			Net Cost of Services		
			Change			Change
	<u>2011</u>	<u>2010</u>	<u>2010-2011</u>	<u>2011</u>	<u>2010</u>	<u>2010-2011</u>
Instruction	\$ 5,589,814	\$ 5,837,693	-4.2%	\$ 3,416,251	\$ 3,543,635	-3.6%
Support services	2,370,121	2,409,057	-1.6%	2,361,851	2,389,212	-1.1%
Non-instructional programs	8,112	7,403	9.6%	8,112	7,403	9.6%
Other expenses	<u>1,283,109</u>	<u>870,788</u>	<u>47.4%</u>	<u>949,223</u>	<u>540,058</u>	<u>75.8%</u>
Total expenses	<u>\$ 9,251,156</u>	<u>\$ 9,124,941</u>	<u>1.4%</u>	<u>\$ 6,735,437</u>	<u>\$ 6,480,308</u>	<u>3.9%</u>

For the year ended June 30, 2011:

- The cost financed by users of the District's programs was \$939,129.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,576,590.
- The net cost of governmental activities was financed with \$3,527,602 in property taxes and \$3,010,306 in unrestricted state grants.

Business Type Activities

Revenues for business type activities for the year ended June 30, 2011 were \$714,940, representing a 34% increase from the prior year while expenses totaled \$461,704 a 4% decrease from the prior year. The District's business type activities include the School Nutrition Fund and Preschool/Daycare Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

The 34% increase in revenue can be attributed to capital contributions in the nutrition fund and tuition for an increased number of 5 year olds attending Busy Hands Preschool. The 4% increase in expenses can be attributed, in part, to the usual increases in personnel costs and the cost of supplies.

INDIVIDUAL FUND ANALYSIS

As previously noted, Louisa-Muscatine Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported a combined fund balance of \$3,945,774, significantly below last year's ending fund balances of \$4,394,326. The primary reason for the decrease in combined fund balances at the end of fiscal year 2011 is due to bond proceeds received in fiscal year 2010 and spent in fiscal year 2011.

Governmental Fund Highlights

- The General Fund balance increased from \$1,640,399 in 2010 to \$1,686,122 in fiscal 2011. The District's improved General Fund financial position is the product of many factors. The district used American Recovery and Reinvestment funds to offset some increases in expenditures.
- The Capital Project - Statewide Sales, Services and Use Tax Fund balance decreased from \$2,001,310 in fiscal 2010 to \$1,377,727 in fiscal 2011. This decrease was mostly due to revenue bond proceeds expended in the fiscal year 2011.

Proprietary Fund Highlights

Enterprise Fund net assets increased from \$173,786 at June 30, 2010 to \$427,022 at June 30, 2011, representing an increase of approximately 146%. This increase was due to capital contributions to the School Nutrition Fund. Busy Hands again served 5 year old students for which they received tuition from the District.

BUDGETARY HIGHLIGHTS

During the fiscal year, Louisa-Muscatine Community School District did not amend its annual budget.

The District's revenues were \$58,566 more than budgeted revenues, a variance of less than 1%. The budget is certified in the spring prior to the beginning of the fiscal year. At that time there are many things still unknown for certain, such as grant amounts and other miscellaneous sources of income.

Overall total expenditures were \$1,277,760 less than budgeted. It is the District's practice to budget expenditures at levels up to the maximum authorized spending authority for funds, then to control and manage spending through the line-item budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2011, the District had invested \$12,231,743, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This represents a net increase of 6.4% from last year. More detailed information about the District's capital assets is presented in Note 4 to the financial statements. Depreciation expense for the year was \$600,426.

The original cost of the District's capital assets was \$21,697,978. Governmental funds account for \$21,265,444, with the remainder of \$432,534 accounted for in the Proprietary Funds.

The largest change in capital asset activity occurred in construction in progress category, from \$4,764,481 in 2010 to \$0 in 2011. The decrease was due to a remodel project at the Jr/Sr High School building started in fiscal 2010 and will be completed in fiscal 2011.

Figure A-6

	Capital Assets, Net of Depreciation						
	Governmental		Business type		Total		Total
	Activities		Activities		District		Change
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2010-2011</u>
Land	\$ 90,976	\$ 90,976	\$ -	\$ -	\$ 90,976	\$ 90,976	0.00%
Construction in progress	-	4,764,481	-	-	-	4,764,481	-100.00%
Buildings and improvements	11,322,155	6,049,024	-	-	11,322,155	6,049,024	87.17%
Improvements, other than buildings	164,810	112,877	-	-	164,810	112,877	46.01%
Furniture and equipment	<u>387,653</u>	<u>460,356</u>	<u>266,149</u>	<u>14,335</u>	<u>653,802</u>	<u>474,691</u>	37.73%
Totals	<u>\$11,965,594</u>	<u>\$11,477,714</u>	<u>\$266,149</u>	<u>\$14,335</u>	<u>\$12,231,743</u>	<u>\$11,492,049</u>	6.44%

Long-Term Debt

At June 30, 2011, the District had \$5,411,477 in general obligation and other long-term debt outstanding. This represents a decrease of approximately 8% from last year. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 5 to the financial statements.

This district continues to carry a general obligation bond rating of Aa3 assigned by national rating agencies to the District's debt. The Constitution of the State of Iowa limits the amount of general obligation debt districts can issue to 5 percent of the assessed value of all taxable property within the District. The District's outstanding general obligation debt is significantly below its constitutional debt limit of approximately \$11.6 million.

Figure A-7
Outstanding Long-term Obligations

	Total District		Total Change
	<u>2011</u>	<u>2010</u>	<u>2010-</u> <u>2011</u>
General obligation bonds	\$ -	\$ 410,000	-100.00%
QSCB Revenue bonds	5,300,000	5,300,000	0.00%
Termination benefits	80,000	170,000	-52.94%
Net OPEB liability	<u>31,477</u>	<u>15,676</u>	100.80%
Total	<u>\$5,411,477</u>	<u>\$5,895,676</u>	-8.21%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- The district continues to experience declining enrollment for the fifth year in a row. The certified enrollment for Fy12 declined 22.5 students from Fy11.
- The District remains in sound financial condition. However, the continued declining enrollment strains the general fund resources.
- Due to declining enrollment, the "new money" for Fy13 is -\$123,590.
- The Federal ARRA and Education Jobs funds will be entirely expended and not available in Fy13.
- The District's contribution to the Iowa Public Employee Retirement System (IPERS) will increase by .60%.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Karron Stineman, Board Secretary/Treasurer and Business Manager, Louisa-Muscatine Community School District, 14478 170th Street, Letts, Iowa 52754.

Basic Financial Statements

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Statement of Net Assets
June 30, 2011

Exhibit A

	Governmental Activities	Business Type Activities	Total
Assets			
Cash and cash equivalents			
Investment with fiscal agent	\$ 599,613	\$ -	\$ 599,613
Other	3,924,308	187,705	4,112,013
Receivables			
Property tax			
Delinquent	45,217	-	45,217
Succeeding year	3,288,721	-	3,288,721
Accounts receivable	215,090	-	215,090
Income surtax	297,018	-	297,018
Due from other governments	235,773	-	235,773
Inventories	-	11,242	11,242
Non-depreciable capital assets	90,976	-	90,976
Capital assets, net of accumulated depreciation	<u>11,874,618</u>	<u>266,149</u>	<u>12,140,767</u>
Total assets	<u>20,571,334</u>	<u>465,096</u>	<u>21,036,430</u>
Liabilities			
Accounts payable	61,029	7,109	68,138
Salaries and benefits payable	839,494	23,771	863,265
Accrued interest payable	75,260	-	75,260
Deferred revenue			
Succeeding year property tax	3,288,721	-	3,288,721
Other	-	7,194	7,194
Long-term liabilities			
Portion due within one year			
Termination benefits payable	55,000	-	55,000
Portion due after one year			
Revenue QSCB bonds payable	5,300,000	-	5,300,000
Termination benefits payable	25,000	-	25,000
Net OPEB liability	<u>31,477</u>	<u>-</u>	<u>31,477</u>
Total liabilities	<u>9,675,981</u>	<u>38,074</u>	<u>9,714,055</u>

See notes to Financial Statements.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Statement of Net Assets
June 30, 2011

Exhibit A

	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
Net Assets			
Invested in capital assets, net of related debt	\$ 6,665,594	\$266,149	\$ 6,931,743
Restricted for			
Categorical funding	158,732	-	158,732
Management levy purposes	96,471	-	96,471
Physical plant and equipment	388,456	-	388,456
Debt service	226,379	-	226,379
Student activities	45,061	-	45,061
School infrastructure	1,377,727	-	1,377,727
Unrestricted	<u>1,936,933</u>	<u>160,873</u>	<u>2,097,806</u>
Total net assets	<u>\$10,895,353</u>	<u>\$427,022</u>	<u>\$11,322,375</u>

See notes to Financial Statements.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Statement of Activities
For the Year Ended June 30, 2011

Exhibit B

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
Governmental activities							
Instruction							
Regular instruction	\$ 3,425,627	\$ 796,995	\$ 1,037,198	\$ -	\$ (1,591,434)	\$ -	\$ (1,591,434)
Special instruction	1,002,436	139,487	180,351	-	(682,598)	-	(682,598)
Other instruction	1,161,751	-	19,532	-	(1,142,219)	-	(1,142,219)
	<u>5,589,814</u>	<u>936,482</u>	<u>1,237,081</u>	<u>-</u>	<u>(3,416,251)</u>	<u>-</u>	<u>(3,416,251)</u>
Support services							
Student	217,736	-	-	-	(217,736)	-	(217,736)
Instructional staff	356,687	-	5,623	-	(351,064)	-	(351,064)
Administration	790,109	-	-	-	(790,109)	-	(790,109)
Operation and maintenance of plant	547,824	-	-	-	(547,824)	-	(547,824)
Transportation	457,765	2,647	-	-	(455,118)	-	(455,118)
	<u>2,370,121</u>	<u>2,647</u>	<u>5,623</u>	<u>-</u>	<u>(2,361,851)</u>	<u>-</u>	<u>(2,361,851)</u>
	<u>8,112</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(8,112)</u>	<u>-</u>	<u>(8,112)</u>
Non-instructional programs							
Other expenses							
Facilities acquisition	293,459	-	-	-	(293,459)	-	(293,459)
Long-term debt interest	171,262	-	-	-	(171,262)	-	(171,262)
AEA flowthrough	333,886	-	333,886	-	-	-	-
Depreciation (unallocated) *	484,502	-	-	-	(484,502)	-	(484,502)
	<u>1,283,109</u>	<u>-</u>	<u>333,886</u>	<u>-</u>	<u>(949,223)</u>	<u>-</u>	<u>(949,223)</u>
	<u>9,251,156</u>	<u>939,129</u>	<u>1,576,590</u>	<u>-</u>	<u>(6,735,437)</u>	<u>-</u>	<u>(6,735,437)</u>
Total governmental activities							

See notes to financial statements.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Statement of Activities
For the Year Ended June 30, 2011

Exhibit B

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Operating Grants, Contributions and Restricted Interest		Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
<u>Functions/Programs (continued)</u>	<u>Expenses</u>	<u>Charges for Services</u>				
Business type activities	\$ 429,033	\$ 200,780	\$ 217,244	\$ -	\$ (11,009)	\$ (11,009)
Non-instructional programs	32,671	40,134	-	-	7,463	7,463
Food service operations						
Daycare/preschool program	461,704	240,914	217,244	-	(3,546)	(3,546)
Total business type activities	\$ 9,712,860	\$ 1,180,043	\$ 1,793,834	(6,735,437)	(3,546)	(6,738,983)
Total						
<u>General Revenues</u>						
Property tax levied for						
General purposes				2,868,555	-	2,868,555
Debt service				430,084	-	430,084
Capital outlay				228,963	-	228,963
Statewide sales, services and use tax				538,009	-	538,009
Unrestricted state grants				3,010,306	-	3,010,306
Contributions and donations				115,386	-	115,386
Unrestricted investment earnings				29,877	615	30,492
Other				162,285	-	162,285
Capital contributions				-	256,167	256,167
Total general revenues and capital contributions				7,383,465	256,782	7,640,247
Change in net assets				648,028	253,236	901,264
Net assets, beginning of year				10,247,325	173,786	10,421,111
Net assets, end of year				\$ 10,895,353	\$ 427,022	\$ 11,322,375

* This amount excludes the depreciation included in the direct expenses of the various programs.
See notes to financial statements.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Balance Sheet
Governmental Funds
June 30, 2011

Exhibit C

	<u>General</u>	<u>Capital Projects Statewide Sales, Services and Use Tax</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Assets				
Cash and pooled investments	\$2,446,554	\$ 614,541	\$ 863,213	\$3,924,308
Investment with fiscal agent	-	599,613	-	599,613
Receivables				
Property tax				
Delinquent	26,505	-	18,712	45,217
Succeeding year	2,977,052	-	311,669	3,288,721
Accounts receivable	215,090	-	-	215,090
Income surtax	267,316	-	29,702	297,018
Due from other governments	42,951	192,822	-	235,773
Total assets	<u>\$5,975,468</u>	<u>\$1,406,976</u>	<u>\$1,223,296</u>	<u>\$8,605,740</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 31,780	\$ 29,249	\$ -	\$ 61,029
Salaries and benefits payable	839,494	-	-	839,494
Deferred revenue				
Succeeding year property tax	2,977,052	-	311,669	3,288,721
Income surtax	267,316	-	29,702	297,018
Federal programs	173,704	-	-	173,704
Total liabilities	<u>4,289,346</u>	<u>29,249</u>	<u>341,371</u>	<u>4,659,966</u>
Fund balances				
Restricted for				
Categorical funding	158,732	-	-	158,732
Debt service	-	-	301,639	301,639
Management levy purposes	-	-	176,471	176,471
Student activities	-	-	45,061	45,061
School infrastructure	-	1,377,727	-	1,377,727
Physical plant and equipment	-	-	358,754	358,754
Unassigned	1,527,390	-	-	1,527,390
Total fund balances	<u>1,686,122</u>	<u>1,377,727</u>	<u>881,925</u>	<u>3,945,774</u>
Total liabilities and fund balances	<u>\$5,975,468</u>	<u>\$1,406,976</u>	<u>\$1,223,296</u>	<u>\$8,605,740</u>

See notes to financial statements.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets
June 30, 2011

Exhibit D

Total fund balances of governmental funds \$ 3,945,774

**Amounts reported for governmental activities in the Statement of Net Assets
are different because:**

Capital assets used in governmental activities are not financial resources
and, therefore, are not reported as assets in the governmental funds. 11,965,594

Other long-term assets are not available to pay current period expenditures and,
therefore, are deferred in the governmental funds. 470,722

Accrued interest payable on long-term liabilities is not due and payable in the
current period and, therefore, is not reported as a liability in the governmental
funds. (75,260)

Long-term liabilities, including bonds payable, termination benefits and other
postemployment benefits payable are not due and payable in the current period and,
therefore, are not reported as liabilities in the governmental funds. (5,411,477)

Net assets of governmental activities \$10,895,353

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2011

Exhibit E

		Capital Projects Statewide Sales, Services and Use Tax	Nonmajor Governmental Funds	Total
Revenues	<u>General</u>			
Local sources				
Local tax	\$2,578,238	\$ 538,009	\$ 959,162	\$4,075,409
Tuition	772,734	-	-	772,734
Other	193,080	103,548	176,222	472,850
State sources	4,093,030	-	450	4,093,480
Federal sources	379,225	-	-	379,225
Total revenues	<u>8,016,307</u>	<u>641,557</u>	<u>1,135,834</u>	<u>9,793,698</u>
Expenditures				
Current				
Instruction				
Regular	3,403,139	-	193,113	3,596,252
Special	997,782	-	2,632	1,000,414
Other	1,016,914	-	142,493	1,159,407
	<u>5,417,835</u>	<u>-</u>	<u>338,238</u>	<u>5,756,073</u>
Support services				
Student	216,322	-	910	217,232
Instructional staff	337,535	-	18,418	355,953
Administration	783,235	-	5,269	788,504
Operation and maintenance of plant	521,854	-	69,234	591,088
Transportation	361,007	-	16,914	377,921
	<u>2,219,953</u>	<u>-</u>	<u>110,745</u>	<u>2,330,698</u>
Non-instructional programs	<u>-</u>	<u>-</u>	<u>8,112</u>	<u>8,112</u>
Other expenditures				
Facilities acquisition	-	1,094,723	118,481	1,213,204
Long-term debt				
Principal	-	-	410,000	410,000
Interest and fiscal charges	-	-	191,367	191,367
AEA flowthrough	333,886	-	-	333,886
	<u>333,886</u>	<u>1,094,723</u>	<u>719,848</u>	<u>2,148,457</u>
Total expenditures	<u>7,971,674</u>	<u>1,094,723</u>	<u>1,176,943</u>	<u>10,243,340</u>

See notes to financial statements.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2011

Exhibit E

	General	Capital Projects Statewide Sales, Services and Use Tax	Nonmajor Governmental Funds	Total
Excess (deficiency) of revenues over (under) expenditures	\$ 44,633	\$ (453,166)	\$ (41,109)	\$ (449,642)
Other financing sources (uses)				
Proceeds from disposal of capital assets	1,090	-	-	1,090
Interfund operating transfers in	-	-	170,417	170,417
Interfund operating transfers (out)	-	(170,417)	-	(170,417)
Total other financing sources (uses)	<u>1,090</u>	<u>(170,417)</u>	<u>170,417</u>	<u>1,090</u>
Net change in fund balances	45,723	(623,583)	129,308	(448,552)
Fund balance, beginning of year, as restated	<u>1,640,399</u>	<u>2,001,310</u>	<u>752,617</u>	<u>4,394,326</u>
Fund balance, end of year	<u>\$1,686,122</u>	<u>\$ 1,377,727</u>	<u>\$ 881,925</u>	<u>\$3,945,774</u>

See notes to financial statements.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances - Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2011

Exhibit F

Net change in fund balances - total governmental funds **\$ (448,552)**

**Amounts reported for governmental activities in the Statement of Activities
are different because:**

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Activities and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures exceeded depreciation expense in the current year, as follows:

Expenditures for capital assets	\$1,063,519	
Depreciation expense	<u>(575,639)</u>	487,880

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the governmental funds.	104,396
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Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.	410,000
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds, as follows:

Early retirement	90,000	
Other postemployment benefits	<u>(15,801)</u>	74,199

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the governmental funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.	<u>20,105</u>
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Change in net assets of governmental activities **\$ 648,028**

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Statement of Net Assets
Proprietary Funds
June 30, 2011

Exhibit G

	<u>School Nutrition</u>	<u>Nonmajor Daycare & Preschool</u>	<u>Total Proprietary</u>
Assets			
Cash and cash equivalents	\$139,043	\$ 48,662	\$ 187,705
Inventories	11,242	-	11,242
Capital assets, net of accumulated depreciation	<u>262,687</u>	<u>3,462</u>	<u>266,149</u>
Total assets	<u>412,972</u>	<u>52,124</u>	<u>465,096</u>
Liabilities			
Accounts payable	7,097	12	7,109
Salaries and benefits payable	23,771	-	23,771
Deferred revenue	<u>7,194</u>	<u>-</u>	<u>7,194</u>
Total liabilities	<u>38,062</u>	<u>12</u>	<u>38,074</u>
Net Assets			
Invested in capital assets	262,687	3,462	266,149
Unrestricted	<u>112,223</u>	<u>48,650</u>	<u>160,873</u>
Total net assets	<u>\$374,910</u>	<u>\$ 52,112</u>	<u>\$ 427,022</u>

See notes to financial statements.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Funds
For the Year Ended June 30, 2011

Exhibit H

	School <u>Nutrition</u>	<u>Nonmajor Daycare & Preschool</u>	Total <u>Proprietary</u>
Operating revenue			
Local sources			
Charges for service	\$200,780	\$ 40,134	\$240,914
Operating expenses			
Instruction - Preschool/Daycare program			
Regular			
Salaries	-	23,778	23,778
Benefits	-	5,539	5,539
Purchased services	-	740	740
Supplies	-	2,539	2,539
Miscellaneous	-	75	75
	<u>-</u>	<u>32,671</u>	<u>32,671</u>
Support services - Food service operations			
Administration			
Salaries	20,970	-	20,970
Benefits	3,127	-	3,127
Purchased services	3,221	-	3,221
	<u>27,318</u>	<u>-</u>	<u>27,318</u>
Non-instructional programs			
Food service operations			
Salaries	157,404	-	157,404
Benefits	30,914	-	30,914
Purchased services	7,251	-	7,251
Supplies	181,359	-	181,359
Depreciation	24,787	-	24,787
	<u>401,715</u>	<u>-</u>	<u>401,715</u>
Total operating expenses	<u>429,033</u>	<u>32,671</u>	<u>461,704</u>
Operating income (loss)	<u>(228,253)</u>	<u>7,463</u>	<u>(220,790)</u>
Non-operating revenue			
Interest income	455	160	615
State sources	3,672	-	3,672
Federal sources	213,572	-	213,572
Total non-operating revenue	<u>217,699</u>	<u>160</u>	<u>217,859</u>
Net income (loss) before capital contributions	<u>(10,554)</u>	<u>7,623</u>	<u>(2,931)</u>
Capital contributions	<u>256,167</u>	<u>-</u>	<u>256,167</u>
Net income	<u>245,613</u>	<u>7,623</u>	<u>253,236</u>
Net assets, beginning of year	<u>129,297</u>	<u>44,489</u>	<u>173,786</u>
Net assets, end of year	<u>\$374,910</u>	<u>\$ 52,112</u>	<u>\$427,022</u>

See notes to financial statements.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2011

Exhibit I

	<u>School Nutrition</u>	<u>Nonmajor Daycare & Preschool</u>	<u>Total Proprietary</u>
Cash flows from operating activities			
Cash received from sale of services	\$ 201,646	\$ 40,329	\$ 241,975
Cash payments to employees for services	(212,415)	(29,317)	(241,732)
Cash payments to suppliers for goods and services	(156,038)	(3,342)	(159,380)
Net cash provided by (used in) operating activities	<u>(166,807)</u>	<u>7,670</u>	<u>(159,137)</u>
Cash flows from non-capital financing activities			
State grants received	3,672	-	3,672
Federal grants received	186,088	-	186,088
Net cash provided by non-capital financing activities	<u>189,760</u>	<u>-</u>	<u>189,760</u>
Cash flows from capital and related financing activities			
Capital contributions	256,167	-	256,167
Acquisition of capital assets	(273,139)	(3,462)	(276,601)
Net cash (used in) capital and related financing activities	<u>(16,972)</u>	<u>(3,462)</u>	<u>(20,434)</u>
Cash flows from investing activities			
Interest on investments	455	160	615
Net increase in cash and cash equivalents	6,436	4,368	10,804
Cash and cash equivalents, beginning of year	132,607	44,294	176,901
Cash and cash equivalents, end of year	<u>\$ 139,043</u>	<u>\$ 48,662</u>	<u>\$ 187,705</u>

**Reconciliation of operating income (loss) to net cash
provided by (used in) operating activities**

Operating income (loss)	\$(228,253)	\$ 7,463	\$(220,790)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities			
Depreciation	24,787	-	24,787
Commodities used	27,484	-	27,484
Decrease in accounts receivable	-	195	195
Decrease in inventory	1,212	-	1,212
Increase in accounts payable	7,097	12	7,109
Increase in deferred revenue	866	-	866
Net cash provided by (used in) operating activities	<u>\$(166,807)</u>	<u>\$ 7,670</u>	<u>\$(159,137)</u>

Non-cash investing, capital and financing activities

During the year ended June 30, 2011 the District received \$27,484 of federal commodities.

See notes to financial statements.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Statement of Changes in Fiduciary Net Assets
Fiduciary Fund
For the Year Ended June 30, 2011

Exhibit J

	Private Purpose Trust <u>Scholarships</u>
Additions	
Local sources	
Gifts and contributions	\$ 1,500
Deductions	
Instruction, regular	
Scholarships	<u>1,500</u>
Change in net assets	-
Net assets, beginning of year	<u>-</u>
Net assets, end of year	<u><u>\$ -</u></u>

See notes to financial statements.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2011

Note 1. Summary of Significant Accounting Policies

The Louisa-Muscatine Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and a preschool/daycare program. The geographic area served includes the Cities of Letts, Grandview and Fruitland, Iowa, and the agricultural territory in Louisa and Muscatine Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Louisa-Muscatine Community School District has included all funds, organizations, agencies, boards, commissions, and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on, the District. The Louisa-Muscatine Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in jointly governed organizations that provide services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Louisa County and Muscatine County Assessor's Conference Boards.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation/amortization and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other revenues that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

The Capital Project – Statewide Sales, Services and Use Tax Fund is used to account for the collection of the 1% statewide sales and services tax to be expended for school infrastructure purposes.

The District reports the following major proprietary fund:

The Enterprise, School Nutrition Fund is used to account for the food service operations of the District.

The District also reports a fiduciary fund which focuses on net assets and changes in net assets. The District's fiduciary fund consists of the following:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements which require income earned to be used to benefit individuals through scholarship awards.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, termination benefits and claims and judgments are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

When an expenditure is incurred in governmental funds which can be paid using either restricted or unrestricted resources, the District's policy is generally to first apply the expenditure toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

The proprietary funds of the District apply all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The

principal operating revenues of the District's enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value, except for the investment in the Iowa Schools Joint Investment Trust and IPAS Education Money Market Fund which are valued at amortized cost under the Investment Company Act of 1940.

The Iowa Schools Joint Investment Trust is a common law trust established under Iowa law and is administered by an appointed investment management company. The fair value of the position in the trust is the same as the value of the shares.

The IPAS Education Money Market Fund is a "money market fund" that seeks to maintain a stable net asset value of \$1.00 per share. The Fund qualifies as a legal investment for the District under Iowa Law.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash, and at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current year and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1 ½ % per month penalty for delinquent payments; is based on

January 1, 2009 assessed property valuations; is for the tax accrual period July 1, 2010 through June 30, 2011 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2010.

Due From Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, furniture and equipment, are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
Land	\$3,500
Buildings	\$3,500
Improvements other than buildings	\$3,500
Intangibles	\$25,000
Furniture and equipment:	
School Nutrition Fund equipment	\$ 500
Other furniture and equipment	\$3,500

Capital assets are depreciated using the straight line method of depreciation over the following estimated useful lives:

<u>Asset Class</u>	<u>Useful Life</u>
Buildings and improvements	5-40 years
Improvements other than buildings	15-20 years
Intangibles	5-10 years
Furniture and equipment	3-20 years

Salaries and Benefits Payable - Payroll and related expenses for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

Termination Benefits - District employees meeting certain requirements are eligible for early retirement termination benefits. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental fund financial statements only for employees that have resigned or retired. The early retirement liability has been computed based on rates of pay in effect at June 30, 2011. The early retirement

liability attributable to the governmental activities will be paid primarily from the Management Fund.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent federal grant proceeds, property tax receivables and income surtax receivables not collected within sixty days after year end.

Deferred revenue in the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Long-term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Balance - In the governmental fund financial statements, fund balances are classified as follows:

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Unassigned - All amounts not included in other spendable classifications.

Net Assets - Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets net of accumulated depreciation, reduced by any outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the District first applies restricted resources.

Net assets restricted through enabling legislation include \$96,471 for management levy purposes, \$388,456 for physical plant and equipment, \$226,379 for debt service, \$45,061 for student activities and \$1,377,727 for school infrastructure.

E. Budgeting and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

F. Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Note 2. Cash and Pooled Investments

The District's deposits in banks at June 30, 2011 were entirely covered by federal depository insurance or by the State Sinking fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2011, the District had investments in the IPAS Education Money Market Fund totaling \$583,197, which is also valued at an amortized cost pursuant to Rule 21-7 under the Investment Company Act of 1940.

At June 30, 2011, the District also had \$83,756 invested in the Iowa Schools Joint Investment Trust, diversified portfolio. The investments in the Iowa Schools Joint Investment Trust are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940. ISJIT is registered with and regulated by the Securities and Exchange Commission.

Interest rate risk. Because the IPAS Education Money Market Fund (the Fund) invests in short-term securities, a decline in interest rates will affect the Fund's yields as these securities mature or are sold and the Fund purchases new short-term securities with lower yields. Generally, an increase in interest rates causes the value of a debt instrument to decrease. The change in value for shorter-term securities is usually smaller than for securities with longer maturities.

Credit risk. This is the risk that a security's credit rating will be downgraded or that the issuer of a security or a guarantor will default (fail to make scheduled interest and principal payments or fail to fulfill its promise to repurchase securities). The IPAS Education Money Market Fund invests in securities issued by the Federal National Mortgage Association ("Fannie Mae") and the Federal Home Loan Mortgage Corporation ("Freddie Mac"). The entities while chartered or sponsored by the U.S. Congress, are not funded by appropriations from the U.S. Congress and the debt or mortgage related securities issued by them are neither guaranteed nor insured by the United States Government. Nevertheless, the IPAS Education Money Market Fund will invest in only highly rated securities to minimize credit risk. These investments were not rated by Moody's Investor or Standard and Poor's services.

The investments in the Iowa Schools Joint Investment Trust were rated Aaa by Moody's Investor Service. The District places no limit on the amount that may be invested in any one issuer. The investments in the Iowa Schools Joint Investment Trust and the IPAS Education Money Market Fund accounted for 13% and 87%, respectively, of the District's total investments.

Note 3. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2011 is as follows:

<u>Transfer To</u>	<u>Transfer From</u>	<u>Amount</u>
Capital Projects	Nonmajor governmental	
Statewide sales, services and use tax	Debt service	\$ 170,417

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expand the resources. The transfer from the Statewide Sales, Services and Use Tax Fund to the Debt Service Fund was for payment of principal and interest on long-term debt.

Note 4. Capital Assets

Capital assets activity for the year ended June 30, 2011 was as follows:

<u>Governmental activities</u>	<u>Balance, Beginning of Year</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance, End of Year</u>
Capital assets not being depreciated:				
Land	\$ 90,976	\$ -	\$ -	\$ 90,976
Construction in progress	<u>4,764,481</u>	<u>814,238</u>	<u>(5,578,719)</u>	<u>-</u>
Total capital assets, not being depreciated	<u>4,855,457</u>	<u>814,238</u>	<u>(5,578,719)</u>	<u>90,976</u>
Capital assets being depreciated:				
Buildings and improvements	12,882,004	5,725,982	-	18,607,986
Improvements other than buildings	832,005	73,700	-	905,705
Furniture and equipment	<u>1,648,980</u>	<u>28,318</u>	<u>(16,521)</u>	<u>1,660,777</u>
Total capital assets being depreciated	<u>15,362,989</u>	<u>5,828,000</u>	<u>(16,521)</u>	<u>21,174,468</u>
Less accumulated depreciation for:				
Buildings and improvements	6,832,980	452,851	-	7,285,831
Improvements other than buildings	719,128	21,767	-	740,895
Furniture and equipment	<u>1,188,624</u>	<u>101,021</u>	<u>(16,521)</u>	<u>1,273,124</u>
Total accumulated depreciation	<u>8,740,732</u>	<u>575,639</u>	<u>(16,521)</u>	<u>9,299,850</u>
Total capital assets being depreciated, net	<u>6,622,257</u>	<u>5,252,361</u>	<u>-</u>	<u>11,874,618</u>

Total capital assets being depreciated, net	<u>6,622,257</u>	<u>5,252,361</u>	<u>-</u>	<u>11,874,61</u>
Governmental activities capital assets, net	<u>\$ 11,477,714</u>	<u>\$ 6,066,599</u>	<u>\$(5,578,719)</u>	<u>\$ 11,965,59</u>

Business type activities

Furniture and equipment	\$ 209,367	\$ 276,601	\$ 50,770	\$ 435,19
Less accumulated depreciation	<u>195,032</u>	<u>24,787</u>	<u>50,770</u>	<u>169,04</u>
Business type activities capital assets, net	<u>\$ 14,288</u>	<u>\$ 251,814</u>	<u>\$ -</u>	<u>\$ 266,14</u>

Depreciation expense was charged to the following functions:

Governmental activities

Instruction	
Regular	\$ 9,612
Support services	
Operation and maintenance of plant	2,351
Transportation	<u>79,174</u>
	91,137
Unallocated depreciation	<u>484,502</u>
Total governmental activities depreciation expense	<u>\$ 575,639</u>

Business type activities

Food services	<u>\$ 24,787</u>
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Note 5. Long-term Liabilities

Changes in long-term liabilities for the year ended June 30, 2011 are summarized as follows:

	Balance, Beginning of Year	Additions	Reductions	Balance, End of Year	Due Within One Year
Governmental activities:					
General obligation bonds	\$ 410,000	\$ -	\$(410,000)	\$ -	\$ -
QSCB revenue bonds	5,300,000	-	-	5,300,000	-
Termination benefits	170,000	-	(90,000)	80,000	55,000
Net OPEB liability	<u>15,676</u>	<u>15,801</u>	<u>-</u>	<u>31,477</u>	<u>-</u>
Totals	<u>\$ 5,895,676</u>	<u>\$ 15,801</u>	<u>\$(500,000)</u>	<u>\$ 5,411,477</u>	<u>\$ 55,000</u>

Interest costs incurred and charged to expense on all long-term debt was \$171,262 for the year ended June 30, 2011. During the year ended June 30, 2011, the District made principal payments on long-term debt of \$410,000. Payments on the GO bonds are made directly from the Debt Service Fund. Payments on the Revenue bonds are made from the Statewide Sales, Services and Use Tax Fund.

Termination Benefits

During the fiscal year ended June 30, 2010, the District offered a voluntary early retirement plan to its certified employees, who met certain eligibility guidelines. This voluntary early retirement plan was offered only for the 2009-2010 school year. Eligible employees were required to be at least age fifty-five and have completed twenty years of consecutive contracted full-time service to the District. Employees were required to complete an application, which was approved by the Board of Education. Benefits were based on one-half of the retiring employee's placement on the salary schedule (excluding extra duty increments, phase monies or extended contracts) up to \$25,000. Benefits are paid in five equal installments over five fiscal years, beginning with the year ended June 30, 2010. The District did not offer a voluntary early retirement plan for the year ended June 30, 2011. Actual termination benefit expenditures for the year ended June 30, 2011 were \$90,000. At June 30, 2011, the District had obligations to seven participants totaling of \$80,000. This long-term liability is generally liquidated with funds from the Management Levy.

QSCB Revenue Bonds

Details of the District's June 30, 2011 statewide sales, services and use tax revenue bonded indebtedness are as follows:

Year Ending June 30,	Bond issue of November 17, 2009			
	Interest Rates	Interest	Principal	Total
2012	2.84	\$ 150,520	\$ -	\$ 150,520
2013	2.84	150,520	-	150,520
2014	2.84	150,520	-	150,520
2015	2.84	150,520	-	150,520
2016	2.84	150,520	-	150,520
2017-2021	2.84	752,600	-	752,600
2022-2025	2.84	<u>526,820</u>	<u>5,300,000</u>	<u>5,826,820</u>
Totals		<u>\$ 2,032,020</u>	<u>\$ 5,300,000</u>	<u>\$ 7,332,020</u>

The District has pledged future statewide sales, services and use tax revenues to repay the \$5,300,000 of bonds issued in November 2009. The bonds were issued for the purpose of financing a portion of the costs of a geothermal system and remodeling project. The bonds are payable solely from the proceeds of the statewide sales, services and use tax revenues received by the District and are payable through 2025. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District. Annual interest payments on the bonds are expected to require approximately 30 percent of the statewide sales, services and use tax revenues. The total principal and interest remaining to be paid on the notes is \$7,332,020. For the current year, no principal was paid on the bonds; however \$168,917 of interest was paid on the bonds and total statewide sales, services and use tax revenues were \$538,009.

The resolution providing for the issuance of the statewide sales, services and use tax revenue bonds includes the following provisions:

- a) Proceeds of the bonds were deposited into the Project Account, which was used to finance the construction project. Interest earned by the Project Account shall remain in the Project Account and be spent in accordance with the resolution and applicable provisions of the Code.
- b) All proceeds from the statewide sales, services and use tax shall be placed in the Revenue Account.
- c) Monies in the Revenue Account shall be disbursed to make deposits into the Sinking Account to pay the principal and interest requirements of the revenue bonds.
- d) Any monies remaining in the Revenue Account after the required transfer to the Sinking Account may be transferred to the Project Account to be used for any lawful purpose.
- e) \$225,531 of the proceeds from issuance of the revenue bonds shall be deposited to the Sinking Account to be used solely for the purpose of paying principals and interest on the bonds if insufficient money is available in the Revenue Account.

Note 6. Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, IA, 50306-9117.

Plan members were required to contribute 4.50%, 4.30 % and 4.10% of their annual covered salary and the District was required to contribute 6.95%, 6.65% and 6.35% of annual covered payroll for the years ended June 30, 2011, 2010 and 2009 respectively. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2011, 2010 and 2009 were \$369,429, \$355,490 and \$340,455, respectively, equal to the required contributions for each year.

Note 7. Other Postemployment Benefits (OPEB)

Plan Description - The District operates a single-employer retiree benefit plan which provides medical and prescription drug benefits for retirees and their spouses. There are 137 active, of which 95 elected out of coverage, and 14 retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit rate subsidy and an OPEB liability.

Funding Policy - The contribution requirements of the plan members are established and may be amended by the District. Upon retirement, the retired participant is assumed to pay 100 percent of the required premium. The District currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation - The District's annual OPEB cost is calculated based on the annual required contribution (ARC) of the District, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding which, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the District's annual OPEB cost for the year ended June 30, 2011, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	\$ 25,554
Interest on net OPEB obligation	392
Adjustment to annual required contribution	<u>(1,824)</u>
Annual OPEB cost	24,122
Contributions made	<u>(8,321)</u>
Increase in net OPEB obligation	15,801
Net OPEB obligation beginning of year	<u>15,676</u>
Net OPEB obligation end of year	<u>\$ 31,477</u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2009. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2011.

For the year ended June 30, 2011, the District contributed \$8,321 to the medical plan. Plan members eligible for benefits contributed \$5,000 or 60% of the premium costs.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2011 are summarized as follows:

<u>Year</u> <u>Ended</u> <u>June 30,</u>	<u>Annual</u> <u>OPEB Cost</u>	<u>Percentage of</u> <u>Annual OPEB</u> <u>Cost Contributed</u>	<u>Net</u> <u>OPEB</u> <u>Obligation</u>
2010	\$ 24,031	34.8%	\$ 15,676
2011	24,122	34.5%	\$ 31,477

Funded Status and Funding Progress - As of July 1, 2009, the most recent actuarial valuation date for the period July 1, 2009 through June 30, 2010, the actuarial accrued liability was \$209,184, with no actuarial value of assets, resulting in an unfunded actuarial accrued

liability (UAAL) of \$209,184. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$5.35 million and the ratio of UAAL to covered payroll was 3.9%. As of June 30, 2011, there were no trust fund assets.

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as Required Supplementary Information in the section following the Notes to Financial Statements will present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of July 1, 2009 actuarial valuation date, the frozen entry age actuarial cost method was used. The actuarial assumptions include a 2.5% discount rate based on the District's funding policy. The projected annual medical trend rate is 6%. The ultimate medical trend rate is 6%.

Mortality rates are from the 94 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were developed from the retirement probabilities from the IPERS Actuarial Report as of June 30, 2007 and applying the termination factors used in the IPERS Actuarial Report as of June 30, 2007.

Projected premiums of the medical plan are \$1,266 per month for retirees less than age 65 and \$1,266 per month for retirees who have attained age 65. The salary increase rate was assumed to be 4% per year. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

Note 8. Risk Management

The District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 9. Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media, and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$333,886 for the year ended June 30, 2011 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

Note 10. Related Party Transactions

During the year ended June 30, 2011, the District entered into business transactions totaling \$9,218 with Kemp and Son, Inc., a company partly owned by Board President Angie Kemp. The transactions were for snow removal and repairs and were entered into through the competitive bidding process.

Note 11. Contingencies

Grant Funding - The District participates in a number of federal and state programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants were subjected to local audit but still remain open to audit by the appropriate grantor government. If expenditures are disallowed by the grantor government due to noncompliance with grant program regulations, the District may be required to reimburse the grantor government. As of June 30, 2011, significant amounts of grant expenditures have not been audited by granting authorities but the District believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on any of the individual governmental funds or the overall financial position of the District.

Note 12. New Governmental Accounting Standards Board (GASB) Statements

During the year ended June 30, 2011, the District implemented the following GASB statements:

- GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This Statement improves the usefulness of information provided to financial report users about fund balances by providing clearer, more structured fund balance classifications, and by clarifying the definitions of existing governmental fund types. Fund balance information is among the most widely and frequently used information in state and local government financial reports. The GASB developed this standard to address the diversity of practice and the resulting lack of consistency that had evolved in fund balance reporting. To reduce confusion, the new standard establishes a hierarchy of fund balance classification based primarily on the extent to which a government is bound

to observe spending constraints. The District reclassified the fund balances for all governmental funds as a result of the implementation of this Statement.

- GASB Statement No. 59, *Financial Instruments Omnibus*. This Statement updates and improves existing standards regarding financial reporting of certain financial instruments and external investments pools. Specifically, this Statement provides financial reporting guidance by emphasizing the applicability of SEC requirements to certain external investments pool, addressing the applicability of GASB 53, *Accounting and Financial Reporting for Derivative Instruments*, and applying the reporting provisions for interest-earning investment contracts of GASB 31, *Accounting and Financial Reporting for Certain Investments and for External Investments Pools*.

As of June 30, 2011, the GASB had issued several Statements not yet implemented by the District. The Statements which might impact the District are as follows:

- GASB Statement No. 57 OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, an amendment of GASB Statement No. 43 and No. 45, issued January 2010, will be effective for the District beginning with its year ending June 30, 2012. This Statement addresses issues related to measurement of OPEB obligations by certain employers participating in agent multiple-employer OPEB plans.
- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, issued November 2010, will be effective for the District beginning with its year ending June 30, 2013. This Statement is intended to improve the financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. Specifically, this Statement improves financial reporting by establishing recognition, measurement, and disclosure requirements SCAs for both transferors and government operators, requiring governments to account for and report SCAs in the same manner, which improves the comparability of financial statements. This Statement also improves the decision usefulness of financial reporting by requiring that specific relevant disclosures be made by transferors and governmental operators about SCAs.
- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus* an amendment of GASB Statements No. 14 and No. 34, issued November 2010, will be effective for the District beginning with its year ending June 30, 2013. This Statement is intended to improve financial reporting for a governmental financial reporting entity by improving guidance for including, presenting and disclosing information about component units and equity interest transactions of a financial reporting entity. The amendments to the criteria for including component units allow users of financial statement to better assess the accountability of elected officials by ensuring that the financial reporting entity includes only organizations for which the elected officials are financially accountable or that are determined by the government to be misleading to exclude. The amendments to the

criteria for blending also improve the focus of a financial reporting entity on the primary government by ensuring that the primary government includes only those component units that are so intertwined with the primary government that they are essentially the same as the primary government, and by clarifying which component units have that characteristic.

- GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, issued January 2011, will be effective for the District beginning with its year ending June 30, 2013. This Statement is intended to enhance the usefulness of the Codification of Governmental Accounting and Financial Reporting Standards by incorporating guidance that previously could only be found in certain FASB and AICPA pronouncements. This Statement incorporates into the GASB's authoritative literature the applicable guidance previously presented in the following pronouncement issued before November 30, 1989: FASB Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the AICPA's Committee on Accounting Procedure. By incorporating and maintaining this guidance in a single source, the GASB believes that GASB 62 reduces the complexity of locating and using authoritative literature needed to prepare state and local government financial reports.
- GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, issued July 2011, will be effective for the District beginning with its year ending June 30, 2013. This Statement is intended to improve financial reporting by providing citizens and other users of state and local government financial reports with information about how past transactions will continue to impact a government's financial statement in the future. This Statement provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities deferred inflows of resources, and net position (which is the net residual amount of the other elements). The Statement requires that deferred outflows of resources and deferred inflows of resources be reported separately from assets and liabilities. This Statement also amends certain provisions of Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments, and related pronouncements to reflect the residual measure in the statement of financial position as net position, rather than net assets.
- GASB Statement No. 64, Derivative Instruments: Application of Hedge Accounting Termination Provisions (an amendment of GASB Statement No. 53), issued July 2011, will be effective for the District beginning with its year ending June 30, 2012. This Statement clarifies that when certain conditions are met, the use of hedge accounting should not be terminated. Those conditions are: (a) the collectability of swap payments is considered to be probable, (b) the replacement of the counterparty or credit support provider meets the criteria of an assignment or in-substance assignment as described in the Statement, and (c) the counterparty or counterparty credit support provider (and not the government) has committed the act of default or termination event. When all of these

conditions exist, the GASB believes that the hedging relationship continues and hedge accounting should continue to be applied.

The District's management has not yet determined the effect these Statements will have on the District's financial statements.

Note 13. Categorical Funding

The District's reserved fund balance for categorical funding at June 30, 2011 is comprised of the following programs:

<u>Program</u>	
Home school assistance program	\$ 7,498
At-risk	31,889
Returning dropout and dropout prevention program	39,155
Beginning teacher mentoring and induction program	367
Class size reduction	30,491
Statewide voluntary preschool	27,705
Educator quality, professional development for model core curriculum	5,737
Educator quality, professional development	15,363
Educator quality, market factor incentives	<u>527</u>
	<u>\$ 158,732</u>

Note 14. Accounting Change/Restatement

Governmental Accounting Standards Board Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, was implemented during the year ended June 30, 2011. The effect of fund type reclassifications is as follows:

	<u>Capital Projects</u>	<u>Special Revenue</u>
	Physical	Physical
	Plant and	Plant and
	Equipment	Equipment
	<u>Levy</u>	<u>Levy</u>
Balances June 30, 2010, as previously reported	\$ -	\$ 332,180
Change in fund type classification per implementation of GASB Statement No. 54	<u>332,180</u>	<u>(332,180)</u>
Balances July 1, 2010, as restated	<u>\$332,180</u>	<u>\$ -</u>

Required Supplementary Information

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
 Budgetary Comparison Schedule of Revenues, Expenditures/Expenses and Changes in Balances - Budget and Actual
 All Governmental Funds and Proprietary Funds
 Required Supplementary Information
 For the Year Ended June 30, 2011

	Governmental Funds		Proprietary Funds	Total	Budgeted Amounts		Final to Actual Variance
	Actual		Actual	Actual	Original	Final	
Revenues							
Local sources	\$5,320,993		\$241,529	\$5,562,522	\$ 5,379,018	\$5,379,018	\$ 183,504
State sources	4,093,480		3,672	4,097,152	4,375,264	4,375,264	(278,112)
Federal sources	379,225		213,572	592,797	439,623	439,623	153,174
Total revenues	<u>9,793,698</u>		<u>458,773</u>	<u>10,252,471</u>	<u>10,193,905</u>	<u>10,193,905</u>	<u>58,566</u>
Expenditures/Expenses							
Instruction	5,756,073		32,671	5,788,744	6,141,924	6,141,924	353,180
Support services	2,330,698		27,318	2,358,016	2,704,650	2,704,650	346,634
Non-instructional programs	8,112		401,715	409,827	414,767	414,767	4,940
Other expenditures	2,148,457		-	2,148,457	2,721,463	2,721,463	573,006
Total expenditures/expenses	<u>10,243,340</u>		<u>461,704</u>	<u>10,705,044</u>	<u>11,982,804</u>	<u>11,982,804</u>	<u>1,277,760</u>
Excess (deficiency) of revenues over (under) expenditures/expenses	(449,642)		(2,931)	(452,573)	(1,788,899)	(1,788,899)	1,336,326
Net other financing sources	<u>1,090</u>		<u>256,167</u>	<u>257,257</u>	<u>-</u>	<u>-</u>	<u>257,257</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures/expenses and other financing uses	(448,552)		253,236	(195,316)	(1,788,899)	(1,788,899)	1,593,583
Balance, beginning of year	4,394,326		173,786	4,568,112	4,355,192	4,355,192	212,920
Balance, end of year	<u>\$3,945,774</u>		<u>\$427,022</u>	<u>\$4,372,796</u>	<u>\$ 2,566,293</u>	<u>\$2,566,293</u>	<u>\$1,806,503</u>

See accompanying Independent Auditor's Report.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Notes to Required Supplementary Information – Budgetary Reporting
For the Year Ended June 30, 2011

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private Purpose Trust Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures or expenses known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated function level, not by fund. The Code of Iowa also provides District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District did not adopt any budget amendments.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Schedule of Funding Progress for the
Retiree Health Plan
Required Supplementary Information

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2011	July 1, 2009	\$ -	\$209,184	\$209,184	\$ -	\$5,541,441	3.8%
2010	July 1, 2009	-	209,184	209,184	-	5,348,845	3.9%

See Note 7 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status and funding progress.

Other Supplementary Information

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2011

Schedule 1

	<u>Special Revenue</u>		<u>Capital Projects Physical Plant and Equipment</u>	<u>Debt Service</u>	<u>Total</u>
	<u>Student Activity</u>	<u>Management Levy</u>	<u>Levy</u>		
Assets					
Cash and pooled investments	\$45,061	\$ 172,998	\$348,515	\$296,639	\$ 863,213
Receivables					
Property tax					
Delinquent	-	3,473	10,239	5,000	18,712
Succeeding year	-	100,001	211,668	-	311,669
Income surtax	-	-	29,702	-	29,702
Total assets	<u>\$45,061</u>	<u>\$ 276,472</u>	<u>\$600,124</u>	<u>\$301,639</u>	<u>\$1,223,296</u>
Liabilities and Fund Balances					
Liabilities					
Deferred revenue					
Succeeding year property tax	\$ -	\$ 100,001	\$211,668	\$ -	\$ 311,669
Income surtax	-	-	29,702	-	29,702
Total liabilities	<u>-</u>	<u>100,001</u>	<u>241,370</u>	<u>-</u>	<u>341,371</u>
Fund balances					
Restricted for					
Student activities	45,061	-	-	-	45,061
Management levy purposes	-	176,471	-	-	176,471
Physical plant and equipment	-	-	358,754	-	358,754
Debt service	-	-	-	301,639	301,639
Total fund balances	<u>45,061</u>	<u>176,471</u>	<u>358,754</u>	<u>301,639</u>	<u>881,925</u>
Total liabilities and fund balances	<u>\$45,061</u>	<u>\$ 276,472</u>	<u>\$600,124</u>	<u>\$301,639</u>	<u>\$1,223,296</u>

See accompanying Independent Auditor's Report.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2011

Schedule 2

	Special Revenue		Capital Projects Physical Plant and Equipment	Debt Service	Total
	Student Activity	Management Levy	Levy		
Revenues					
Local sources					
Local taxes	\$ -	\$ 299,284	\$230,002	\$429,876	\$ 959,162
Other	135,378	9,765	29,449	1,630	176,222
State sources	-	145	97	208	450
Total revenues	<u>135,378</u>	<u>309,194</u>	<u>259,548</u>	<u>431,714</u>	<u>1,135,834</u>
Expenditures					
Current					
Instruction					
Regular	-	93,160	99,953	-	193,113
Special	-	2,632	-	-	2,632
Other	140,735	1,758	-	-	142,493
Total instruction	<u>140,735</u>	<u>97,550</u>	<u>99,953</u>	<u>-</u>	<u>338,238</u>
Support services					
Student	-	910	-	-	910
Instructional staff	-	10,818	7,600	-	18,418
Administration	-	5,269	-	-	5,269
Operation and maintenance of plant	-	62,294	6,940	-	69,234
Transportation	-	16,914	-	-	16,914
Total support services	<u>-</u>	<u>96,205</u>	<u>14,540</u>	<u>-</u>	<u>110,745</u>
Non-instructional programs	<u>-</u>	<u>8,112</u>	<u>-</u>	<u>-</u>	<u>8,112</u>
Other expenditures					
Facilities acquisition	-	-	118,481	-	118,481
Long-term debt					
Principal	-	-	-	410,000	410,000
Interest and fiscal charges	-	-	-	191,367	191,367
Total other expenditures	<u>-</u>	<u>-</u>	<u>118,481</u>	<u>601,367</u>	<u>719,848</u>
Total expenditures	<u>140,735</u>	<u>201,867</u>	<u>232,974</u>	<u>601,367</u>	<u>1,176,943</u>
Excess (deficiency) of revenues over (under) expenditures	(5,357)	107,327	26,574	(169,653)	(41,109)
Other financing sources					
Interfund operating transfers in	-	-	-	170,417	170,417
Net change in fund balances	(5,357)	107,327	26,574	764	129,308
Fund balances, beginning of year, as restated	50,418	69,144	332,180	300,875	752,617
Fund balances, end of year	<u>\$ 45,061</u>	<u>\$ 176,471</u>	<u>\$358,754</u>	<u>\$301,639</u>	<u>\$ 881,925</u>

See accompanying Independent Auditor's Report.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Schedule of Changes in Special Revenue Fund, Student Activity Accounts
For the Year Ended June 30, 2011

Schedule 3

Account	Balance, Beginning of Year	Revenues	Expenditures	Intrafund Transfers	Balance, End of Year
Athletics	\$ 10,401	\$ 56,544	\$ 68,154	\$ 4,930	\$ 3,721
Athletic fundraising	1,922	1,340	-	(3,262)	-
Cheerleading fundraising	3,620	1,996	2,457	-	3,159
Cheerleading resale	-	5,655	5,655	-	-
Ads and posters	1,499	-	-	(1,499)	-
Jr high	(103)	2,517	2,428	-	(14)
Elementary activity	5,191	2,408	3,626	-	3,973
Concessions	6,521	6,832	7,175	(595)	5,583
FFA	5,232	5,519	7,608	(170)	2,973
Band	6,503	27,007	22,047	-	11,463
Speech	137	-	-	-	137
Drama	962	-	-	-	962
Student council	542	2,895	1,842	-	1,595
Yearbook	3,105	2,680	2,616	-	3,169
Quiz bowl	188	283	203	-	268
Vocal music	2,080	9,521	5,993	-	5,608
TAG	303	150	34	-	419
Senior class	1,080	4,015	5,511	229	(187)
NHS	351	3,648	3,770	500	729
Interest	-	133	-	(133)	-
FFA Vending	884	2,235	1,616	-	1,503
Totals	<u>\$ 50,418</u>	<u>\$ 135,378</u>	<u>\$ 140,735</u>	<u>\$ -</u>	<u>\$ 45,061</u>

See accompanying Independent Auditor's Report.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Schedule of Revenues by Source and Expenditures by Function
All Governmental Funds
For the Last Eight Years

Schedule 4

	Modified Accrual Basis							
	2011	2010	2009	2008	2007	2006	2005	2004
Revenues								
Local sources								
Local tax	\$ 4,075,409	\$ 3,943,319	\$4,132,933	\$4,000,876	\$3,931,457	\$3,909,874	\$3,766,108	\$ 3,099,130
Tuition	772,734	785,368	860,156	757,169	553,573	553,280	508,531	621,015
Other	472,850	251,793	426,907	417,193	336,277	283,281	314,894	271,674
State sources	4,093,480	3,409,681	4,057,811	4,510,165	3,964,926	3,659,560	3,661,562	3,247,182
Federal sources	379,225	682,620	289,315	161,365	193,488	182,377	165,659	204,663
Total revenues	<u>\$ 9,793,698</u>	<u>\$ 9,072,781</u>	<u>\$9,767,122</u>	<u>\$9,846,768</u>	<u>\$8,979,721</u>	<u>\$8,588,372</u>	<u>\$8,416,754</u>	<u>\$ 7,443,664</u>
Expenditures								
Current								
Instruction								
Regular	\$ 3,596,252	\$ 3,778,375	\$3,868,239	\$3,919,409	\$3,498,070	\$3,231,244	\$3,082,267	\$ 3,129,887
Special	1,000,414	881,135	939,238	871,910	868,993	722,969	804,476	843,113
Other	1,159,407	1,091,537	1,016,267	677,268	750,354	771,639	645,212	496,931
Support services								
Student	217,232	247,448	208,830	212,602	202,923	196,937	232,680	220,136
Instructional staff	355,953	341,147	313,337	288,542	409,712	423,431	373,511	236,691
Administration	788,504	798,346	760,514	801,954	651,981	705,263	601,085	606,526
Operation and maintenance of plant	591,088	654,292	658,326	707,958	653,872	598,758	533,134	549,730
Transportation	377,921	459,268	483,092	503,815	624,877	447,702	428,106	415,983
Central support	-	2,264	467	-	-	-	-	-
Non-instructional programs	8,112	7,403	8,403	-	-	162	4,049	2,545
Other expenditures								
Facilities acquisition	1,213,204	4,662,706	283,477	159,735	290,843	300,390	62,814	122,785
Long-term debt								
Principal	410,000	461,337	830,000	500,000	470,000	445,000	433,338	3,033,740
Interest and other charges	191,367	40,650	79,970	103,833	127,232	148,857	201,910	271,131
AEA flowthrough	333,886	330,730	311,337	308,167	278,396	259,272	248,857	241,253
Total expenditures	<u>\$ 10,243,340</u>	<u>\$ 13,756,638</u>	<u>\$9,761,497</u>	<u>\$9,055,193</u>	<u>\$8,827,253</u>	<u>\$8,251,624</u>	<u>\$7,651,439</u>	<u>\$ 10,170,451</u>

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2011

Schedule 5

Grantor/Program	CFDA Number	Grant Number	Expenditures	
Indirect				
U.S. Department of Agriculture				
Iowa Department of Education				
School Nutrition Cluster Programs				
School Breakfast Program	10.553	FY11	\$ 27,677	
National School Lunch Program	10.555	FY11	178,702	*
Total Department of Agriculture			<u>206,379</u>	
U.S. Department of Education				
Iowa Department of Education				
Title I, Part A Cluster				
Title I Grants to Local Educational Agencies	84.010	FY11	92,413	
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	FY11	<u>32,214</u>	
			124,627	
Safe and Drug-free Schools and Communities-State Grants	84.186	FY11	1,735	
Improving Teacher Quality State Grants	84.367	FY11	32,670	
Grants for State Assessments and Related Activities	84.369	FY11	5,623	
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	FY11	36,115	
ARRA - State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act	84.397	FY11	<u>32,508</u>	
Total Iowa Department of Education			<u>233,278</u>	
Grant Wood Area Education Agency				
Special Education-Grants to States	84.027	FY11	43,123	**
Carl D. Perkins Career and Technical Education Act				
Comprehensive Centers (Title II)	84.243	FY11	500	
ARRA - Special Education Grants to States, Recovery Act	84.391	FY11	<u>53,897</u>	**
Total Area Education Agency			<u>97,520</u>	
Total Department of Education			330,798	
Total federal awards			<u>\$ 537,177</u>	

* Include \$20,291 of non-cash awards

** Total for Special Education Cluster (IDEA) is \$97,020

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Louisa-Muscatine Community School District and is presented on the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying Independent Auditor's Report.

KAY L. CHAPMAN, CPA PC

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Muscatine, Iowa 52761

563-264-1385

Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance
with Government Auditing Standards

To the Board of Education
Louisa-Muscatine Community School District

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Louisa-Muscatine Community School District as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued my report thereon dated January 23, 2012. I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Louisa-Muscatine Community School District's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing my opinion on the effectiveness of Louisa-Muscatine Community School District's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of Louisa-Muscatine Community School District's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, I identified certain deficiencies in internal control over financial reporting I consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the District's financial statements will not be

prevented or detected and corrected on a timely basis. I consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs as item II-A-11 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Louisa-Muscatine Community School District's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, I noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2011 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the District. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Louisa-Muscatine Community School District's responses to findings identified in my audit are described in the accompanying Schedule of Findings and Questioned Costs. While I have expressed my conclusions on the District's responses, I did not audit Louisa-Muscatine Community School District's responses and, accordingly, I express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Louisa-Muscatine Community School District and other parties to whom Louisa-Muscatine Community School District may report, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

I would like to acknowledge the many courtesies and assistance extended to me by the personnel of the Louisa-Muscatine Community School District during the course of my audit. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.

Kay L. Chapman, CPA PC

Kay L. Chapman, CPA PC
January 23, 2012

KAY L. CHAPMAN, CPA PC

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Independent Auditor's Report on Compliance with Requirements That
Could Have a Direct and Material Effect on Each Major Program and on
Internal Control over Compliance in Accordance with OMB Circular A-133

To the Board of Education
Louisa-Muscatine Community School District

Compliance

I have audited the compliance of Louisa-Muscatine Community School District with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of Louisa-Muscatine Community School District's major federal programs for the year ended June 30, 2011. Louisa-Muscatine Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of Louisa-Muscatine Community School District's management. My responsibility is to express an opinion on Louisa-Muscatine Community School District's compliance based on my audit.

I conducted my audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Louisa-Muscatine Community School District's compliance with those requirements and performing such other procedures as I consider necessary in the circumstances. I believe my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on Louisa-Muscatine Community School District's compliance with those requirements.

In my opinion, Louisa-Muscatine Community School District complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

The management of Louisa-Muscatine Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of

laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing my audit, I considered Louisa-Muscatine Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of Louisa-Muscatine Community School District's internal control over compliance.

My consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, I identified deficiencies in internal control over compliance I consider to be a material weakness.

A deficiency in the District's internal control over compliance exists when the design or operation of the control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. I consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-11 to be a material weakness.

Louisa-Muscatine Community School District's responses to findings identified in my audit are described in the accompanying Schedule of Findings and Questioned Costs. While I have expressed my conclusions on the District's responses, I did not audit Louisa-Muscatine Community School District's responses and, accordingly, I express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Louisa-Muscatine Community School District and other parties to whom Louisa-Muscatine Community School District may report, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

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LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2011

Part I. Summary of the Independent Auditor's Results

1. Unqualified opinions were issued on the financial statements.
2. Material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
3. The audit did not disclose any non-compliance which is material to the financial statements.
4. A material weakness in internal control over the major programs was disclosed by the audit of the financial statements.
5. An unqualified opinion was issued on compliance with requirements applicable to each major program.
6. The audit disclosed no audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
7. Major programs were as follows:
 - Clustered programs:
 - CFDA Number 84.010 Title I Grants to Local Educational Agencies
 - CFDA Number 84.389 ARRA – Title I Grants to Local Educational Agencies, Recovery Act
 - Clustered programs:
 - CFDA Number 10.553 School Breakfast Program
 - CFDA Number 10.555 National School Lunch Program
8. The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
9. Louisa-Muscatine Community School District did not qualify as a low-risk auditee.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2011

Part II. Findings Related to the Financial Statements

INTERNAL CONTROL DEFICIENCIES

II-A-11 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts and disbursements, bank deposits and bank account reconciliations were all handled by the same person.

Recommendation - I realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review its operating procedures to obtain the maximum internal control possible under the circumstances.

Response and Corrective Action Planned - We will review our procedures and implement changes to improve internal control, as we deem necessary.

Conclusion - Response accepted.

INSTANCES OF NON-COMPLIANCE

No matters were noted.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2011

Part III. Findings and Questioned Costs for Federal Awards

INSTANCES OF NON-COMPLIANCE

No matters were noted.

INTERNAL CONTROL DEFICIENCY

CFDA Number 10.553 School Breakfast Program
CFDA Number 10.555 National School Lunch Program
Federal Award Year: 2011
U.S. Department of Agriculture
Passed through the Iowa Department of Education

CFDA Number 84.010 Title I Grants to Local Educational Agencies
CFDA Number 84.389 ARRA - Title I Grants to Local Educational Agencies, Recovery Act
Federal Award Year: 2011
U.S. Department of Education
Passed through the Iowa Department of Education

III-A-11 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts and disbursements, bank deposits and bank account reconciliations were all handled by the same person.

Recommendation - I realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review its operating procedures to obtain the maximum internal control possible under the circumstances.

Response and Corrective Action Planned - We have reviewed procedures and plan to make the necessary changes, as we deem necessary, to improve internal control.

Conclusion - Response accepted.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2011

Part IV. Other Findings Related to Required Statutory Reporting:

1. Certified Budget - Expenditures for the year ended June 30, 2011 did not exceed the amounts budgeted.
2. Questionable Expenditures - No expenditures I believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979, were noted.
3. Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
4. Business Transactions - Business transactions between the District and District officials are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Angie Kemp, board member part owner of Kemp & Son, Inc.	snow removal and repairs	\$9,218

The transactions with Board Member Kemp's business does not appear to represent a conflict of interest since it was competitively bid, as allowed by Chapter 279.7A of the Code of Iowa.

Recommendation - The District should consult legal counsel to determine the disposition of this matter.

Response - We will review the situation.

5. Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
6. Board Minutes - I noted no transactions requiring Board approval which had not been approved by the Board.
7. Certified Enrollment - No variances in the basic enrollment data certified to the Iowa Department of Education were noted.
8. Supplementary Weighting - No variances regarding the supplementary weighting certified to the Iowa Department of Education were noted.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2011

9. Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy were noted.
10. Certified Annual Reports - The Certified Annual Report was certified timely to the Department of Education.
11. Categorical Funding - No instances were noted of categorical funding being used to supplant rather than supplement other funds.
12. Statewide Sales, Services and Use Tax - No instances of noncompliance with the use of the statewide sales, services and use tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales, services and use tax revenue. Districts are required to include these reporting elements in the Certified Annual Report (CAR) submitted to the Iowa Department of Education. For the year ended June 30, 2011, the District reported the following information regarding the statewide sales, services and use tax revenue in the District's CAR:

Beginning balance		\$ 2,001,310
Revenues		
Statewide sales and services tax revenue	\$ 538,009	
Other local revenues	<u>103,548</u>	641,557
Expenditures/transfers out		
School infrastructure		
School infrastructure construction	1,073,441	
Equipment	21,282	
Debt service for school infrastructure		
Revenue debt	<u>170,417</u>	<u>1,265,140</u>
Ending balance		<u>\$ 1,377,727</u>

For the year ended June 30, 2011, the District did not reduce any levies as a result of the moneys received under Chapter 423E or 423F of the Code of Iowa.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Audit Staff
June 30, 2011

This audit was performed by

Kay Chapman, CPA
Tammy Calvert, staff accountant

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Corrective Action Plan for Federal Audit Findings
For the Year Ended June 30, 2011

<u>Comment Number</u>	<u>Comment Title</u>	<u>Corrective Action Plan</u>	<u>Contact Person, Title, Phone Number</u>	<u>Anticipated Date of Completion</u>
III-A-11	Segregation of Duties	District reviewed procedures and plan to make the necessary changes, as we deem necessary to improve internal control	Karron Stineman Business Manager (319)- 726-3541	6/30/2012

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Summary Schedule of Prior Federal Audit Findings
For the Year Ended June 30, 2011

<u>Comment Number</u>	<u>Comment Title</u>	<u>Status</u>	<u>If not corrected, provide planned corrective action or other explanation</u>
III-A-10	Segregation of Duties	Not corrected.	Plan to segregate duties for custody, recordkeeping and reconciling among Louisa-Muscatine Community School District staff.